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- [Bills & legislation](#)
- [Committees](#)
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## Select Committee on Trade and Industry Minutes of Evidence

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### Memorandum submitted by ICL Pathway

#### HISTORY—1996

1. In May 1996 ICL Pathway won the tender to computerise all the UK's 19,000 Post Offices and simultaneously automate the system for paying DSS benefits to a total of 28 million claimants. This was a Private Finance Initiative (PFI) project under which ICL Pathway would design, build, finance and operate the system, taking on all the initial risks and being rewarded by receiving a fee for each transaction conducted over the new system. The contract was to run until 2005; the customers were the DSS Benefits Agency (BA) and Post Office Counters Ltd (POCL). Contract details were due to be completed by the end of 1996 and national installation in all post offices was to be completed by the end of 1998.

2. ICL Pathway (initially the Pathway consortium, since 1996 a wholly owned subsidiary of ICL) had been formed in 1994 to bid for the tender. It was selected following a lengthy competitive bid; its subcontractors include Girobank and De La Rue.

3. One of the largest IT projects in Europe, the proposed network is twice as large as all of the current banking infrastructure in the UK. The project would also involve ICL Pathway training 70,000 post office staff, and designing and integrating the system to handle some 20 DSS benefits paid to a total of 28 million claimants (many of whom receive more than one benefit) at post office counters. Since billions of pounds are paid out every year, the system had to be extremely robust and secure.

4. The new system, when fully installed, would enable POCL to offer more services to their current and prospective customers. A major attraction of the system was its capability virtually to eliminate fraudulent DSS benefit encashment, resulting in estimated fraud savings of £150 million a year.

5. As specified by the two customers in the contract, ICL Pathway would deliver a magnetic stripe swipe card (the Payment Card)

which would gradually replace order books and girocheques. ICL's original proposal was to issue a smartcard but the customers maintained their preference for a "mag stripe" Payment Card. Currently some 890 million order book and girocheque payments are made through post offices each year.

6. In May 1996 the customers established the PDA (Programme Delivery Authority) to oversee the project, the PDA's 150-strong staff being formed from POCL, BA and external consultants. In September 1996 the first 10 post offices in the Stroud vicinity were automated with the new system and the first benefit Payments Cards were issued for claimants to receive Child Benefit only.

7. The ICL Pathway system was dependent on information received from the systems of both customers, ie this was an end-to-end system where DSS systems would transmit data through the ICL Pathway network to the relevant post office (and vice versa).

8. The original contract timetable was based on the agreement that the BA would make its CAPS database (Customer Accounting and Payment Strategy) available to ICL for testing in September 1996. This software and the interface specifications were essential to ICL Pathway, to enable the establishment of the databases for all benefits so that the ICL Pathway system could pay the right money to claimants at the right post office at the right time. CAPS is run in-house by the BA. However, it subsequently emerged that it would be available only on a phased basis and would be delayed by three years. Today, as ICL understands it, it is still not fully completed.

1997

9. In June 1997 the system in the first 10 post offices was upgraded to introduce barcoding of order books. (In an earlier contract signed in 1994 ICL had introduced barcoding on order books presented at all post offices within the M25 area, which still runs successfully and which has led to tangible savings in encashment fraud through the impounding of fraudulent order books.)

10. However, in the course of 1997 it gradually became evident to ICL Pathway that the project was being managed by the PDA in a manner inconsistent with the principles of a PFI as explained in guidance issued to departments by HM Treasury and the Treasury PFI Taskforce. Although as a PFI contract a significant amount of risk was being laid on ICL Pathway, the PDA maintained it had a right to require ICL Pathway to behave as if this was a conventional government procurement programme. This led to a huge amount of senior management time being devoted to solving the issues which were constantly being raised by the PDA. Accordingly, ICL, POCL and BA sponsored an independent report from PA Consulting. This concluded its Review in October 1997 and one important result of this was the abolition of the 150-strong PDA. But a significant amount of time had been lost.

11. In November 1997 the ICL Pathway system was extended to a further 200 post offices in the north-east and south-west using the benefit Payment Card to pay Child Benefit. The technology was acknowledged as working successfully and was well received by sub-postmasters, their staff and claimants alike. At the same time, the BA claimed that ICL Pathway was late in delivering under the terms of its contract. This is not the case: a revised timescale and programme had been agreed by all parties including the BA, and ICL Pathway was delivering to schedule.

1998

12. In early 1998, because of what it regarded as excessive interference and bureaucracy, ICL approached HM Treasury to register its concern. As a result, the Treasury Expert Panel under Adrian Montague of the PFI Taskforce was established to assess the commercial and technical feasibility of the project. This Panel reported its findings in July 1998, which confirmed that technical viability of the project and the approach of ICL Pathway. It was then indicated to ICL that relevant Ministers would meet to consider the way ahead, but the Cabinet re-shuffle at the end of July prevented this taking place.

13. In September 1998 Graham Corbett, deputy chairman of the Monopolies and Mergers Commission, was appointed by the Government as "facilitator" to determine a way forward to meet the needs of all parties to the contract (ICL Pathway, POCL, BA). He concluded his discussions with the parties four weeks later. From October to December 1998 ICL Pathway held detailed negotiations with BA and POCL, making a number of revised proposals which represented serious concessions, in order to gain acceptance on a commercial way forward. On 18 December ICL Pathway submitted its final proposals which were to be presented to Ministers, who were expected to meet shortly thereafter to reach a decision. However, Ministerial resignations before Christmas and another, subsequent reshuffle prevented this taking place. ICL has not, in fact, ever received a reply to its letter of 18 December 1998 and in April 1999 formally withdrew this proposal.

14. By this time some 36,000 claimants were successfully using the new benefit Payment Card at 204 post offices to collect Child Benefit. Even on this relatively modest basis, the system including the electronic scanning arrangements for order books generated £2 million in potential fraud savings. Throughout this period of almost constant review since February 1998, ICL Pathway continued to work on the project at a cost of £10 million per month.

1999

15. In January 1999 it emerged that the BA did not wish to proceed with the magnetic stripe card, preferring instead to make direct payments into bank accounts—notwithstanding the fact that many millions of legitimate benefit claimants do not have bank accounts and, because they rely on their benefits, are unlikely to be able to open bank accounts. ICL Pathway was, however, not informed whether Ministers collectively had decided to dispense with the Payment Card.

16. In late January a senior Treasury official, Steve Robson, was appointed with the Prime Minister's authority to devise an alternative solution. ICL Pathway fully co-operated with him. His proposed solution was to preserve the Post Office infrastructure and eliminate the magnetic stripe card, paving the way for the possible introduction of a smartcard and a simple banking role for POCL. Benefit claimants would use their smartcard to access their benefit account at the post office and the BA would pay the benefits direct to these accounts or to an account in a conventional bank if the claimant wished. It is worth noting that although ICL Pathway had developed a magnetic stripe card as stipulated in the 1996 contract, ICL Pathway designed the system to be capable of using smartcards from day one.

17. From February to May 1999 ICL Pathway made strenuous efforts to achieve a solution acceptable to all parties, but by May it was clear that Ministers had decided not to proceed with the Payment Card. On 24 May the Government through the DTI announced the revised agreement for a partnership between the Post Office and ICL to deliver the new infrastructure but without the BA Payment Card or a smartcard. In the meantime, a further 100 post offices had been equipped in the run-up to national installation of the system across the UK.

## PROJECT ACHIEVEMENTS

18. This submission seeks to make it clear that, in addition to the measurable savings in benefit encashment fraud cited above,

— ICL Pathway has delivered a working system since 1996 that has been subject to rigorous external reviews, each of which has validated its technical feasibility.

— ICL Pathway has designed a system that would have enabled the BA fully to reconcile its accounts (this element of the system is successfully in place for the payment of Child Benefit at the operational post offices).

— ICL Pathway has gone to very considerable lengths throughout the duration of the project to date to find an acceptable commercial way forward; the issue has not been the technology.

## THE FUTURE

19. Following the policy change within the DSS to discontinue the use of the benefit Payment Card, the three parties to the original contract have agreed a revised programme as follows:

1. The original PFI contract with ICL Pathway has been revised so that payment will no longer be linked to transaction volumes, reflecting the removal of the Payment Card element.
2. ICL will have a single customer, the Post Office.
3. The fixed price contract for ICL will run until March 2005.
4. ICL and the Post Office will continue discussions on a Public/Private Partnership for the development of Network Banking and "Modernising Government" services which may be built upon the Pathway platform.
5. The electronic scanning of benefit payment order books will be implemented on a national basis, and will contribute to reducing benefit encashment fraud.
6. ICL will complete automation of all 19,000 post offices and installation of the IT network. By January 2000, automation will be running at a rate of 300 post offices per week, with the programme scheduled for completion by April 2001.

20. As a consequence of this, in line with accountancy requirements, ICL has made a provision for £180 million in its accounts for 1998-1999, representing the cost of its investment in the Payment Card to date. The deadline for signing the revised agreement is 16 July 1999.

11 June 1999

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[Previous](#)

[Contents](#)

[Next](#)

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